

CUs add over 27.4 million potential new members in underserved areas

Chairman Johnson commends efforts to make a difference for the many left unserved by traditional financial institutions

America's federal credit unions continue their record setting pace to reach out to those left without financial service in moderate and low-income communities across the country with over 27.4 million potential new credit union members added in 2004, according to National Credit Union Administration (NCUA) statistics.

NCUA data indicates that 139 federal credit unions adopted 240 underserved communities with 27.4 million residents between January and December 2004. Texas led the way by adding 4.98 million potential members in 27 designated underserved areas across the state, while New York added 37 designated underserved areas that will enable over 1.7 million potential members to take advantage of affordable financial services.

"I applaud credit unions' hard work in making the dream of financial self-sufficiency a reality for many previously left to make ends meet with payday lenders, pawnshop loans and check cashing fees," said NCUA Chairman JoAnn Johnson. "NCUA's streamlined application process epitomizes the agency's Access Across America initiative that acts to enhance and create economic empowerment for Americans from all walks of life."

In the last four years, 697 federal credit unions have adopted 1,215 underserved areas, totaling 92.1 million potential members.

"Year after year credit unions step up to meet the needs of their members and communities," Chairman Johnson said. "NCUA will continue to support and facilitate expansion that provides financial service to low-income and underserved communities. I encourage credit unions to evaluate their long-term business plans to consider if adopting an underserved

neighborhood or community can fulfill both their financial and philanthropic goals for the future.

"NCUA's Access Across America initiative has enabled the nation's credit unions to take unprecedented steps in providing economic empowerment opportunities in well over a thousand communities, many lacking sufficient access to affordable financial services," Chairman Johnson said. "Now it is the responsibility of the residents within these communities to take advantage of this opportunity. I encourage credit unions that have stepped forward to ensure that those eligible within these communities are made aware of the many benefits of being a credit union member and joining the mainstream financial sector."

Chairman Johnson also noted that NCUA's faith-based credit union initiative resulted in 36,880 more Americans having

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Philippine credit union officials visit NCUA



Jan. 24, 2005 – Chairman JoAnn Johnson greets First Community Cooperative Manager Vicente Rana while World Council of Credit Union Representative David Richardson (2nd from left) and Bansalan Cooperative Manager Lucas Gripo look on. The Philippines has 41 credit unions with 459,699 members.

HIGHLIGHTS

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News briefs

Federal flood insurance — Letter No. 04-CU-16, issued in December 2004, includes key provisions and offers guidance to assist credit unions strengthen Flood Act compliance programs thereby protecting credit unions and their members against catastrophic losses. Credit unions are reminded that reviewing the Flood Act compliance program is a required part of risk focused examinations.

NCUSIF losses — Reserves for potential losses were decreased \$14.6 million in December 2004 — \$11.3 million was an adjustment to the national reserve pool because of a change in methodology and \$3.3 million was due to a net reduction in anticipated losses and a bond claim received on specific cases.

NCUSIF equity level — The NCUSIF equity level decreased to 1.26 percent at year-end based on a December 31, 2004, estimated share base of \$506 million.

Credit union failures — Twenty-one credit unions failed in 2004 — seven merged with assistance and 14 entered involuntary liquidation. Ten involuntary liquidations were purchase and assumptions. Losses were \$12.0 million at year-end.

White paper offers supervision guidance on CDCUs

NCUA issued Letter to Credit Unions 05-CU-01 in early February to provide a better understanding of the challenges community development credit unions (CDCU) face and offer guidance on how to better serve members of modest means and their communities.

Supervising Community Development Credit Unions – Balancing Their Mission and NCUA's Regulatory Responsibilities employs Chairman Johnson's directive to seek input on enhancing communication and exploring opportunities and challenges for community development credit unions.

"I appreciate the dedication and thorough consideration of the community development credit union officials who

provided advice and guidance to our staff on the issues affecting these institutions. This effort created quality results for a more effective supervisory program, which recognizes their mission and NCUA's regulatory responsibilities," said Chairman Johnson.

The white paper details the characteristics of a well-managed CDCU, CDCU members, non-traditional underwriting, effective collection programs, and the impact of non-member deposits. It also highlights the value of NCUA's Community Development Revolving Loan Program and preservation of community development credit unions.

The document is available online at: <http://www.ncua.gov/letters/letters.html>.

New members

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access to faith-based credit union services as a result of these institutions adopting underserved neighborhoods in close proximity to their locations. Since 2002, over

736,880 residents have been made eligible to be served by a faith-based credit union.

Underserved Reports can be found at <http://www.ncua.gov/ReportsAndPlans/AccessAmericaRpt/AccessAmericaRpts.htm>.

NCUA News

National Credit Union Administration

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

JoAnn Johnson, Chairman
Deborah Matz, Board Member

Information about NCUA and its services may be secured by contacting at 703-518-6330.

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Chairman Johnson with Treasury Secretary Snow



January 26, 2005, Washington D.C. — NCUA Chairman JoAnn Johnson with Treasury Secretary John W. Snow at the awards ceremony honoring outgoing Assistant Treasury Secretary for Financial Institutions Wayne Abernathy in the Cash Room at the U.S. Treasury.

Board actions January 13, 2005

MSB conversion amendments finalized

The NCUA Board adopted a rule change to Part 708a amending the requirements for converting from an insured credit union to a mutual savings bank to ensure members are provided full disclosure about the conversion, including costs, before voting on the conversion. The amendments require a secret ballot vote be conducted by an independent entity. These amendments are effective immediately upon publication in the Federal Register.

Merger, insurance termination and conversion rule amended

The NCUA Board issued a final change to the Part 708b rule on credit union mergers, federal share insurance terminations and conversions from federal share insurance to nonfederal (private) insurance.

The final Part 708b rule requires credit unions converting from federal to private share insurance to make certain disclosures to members to ensure they are properly informed before voting on whether to convert to private share insurance. The rule also provides protections to members who may lose federal insurance because they have large, insured accounts at two federally insured credit unions that are merging or they have term accounts at a federally insured credit union that is converting to private insurance. In addition, the rule requires merging credit unions to analyze the premerger requirements imposed by the Hart-Scott-Rodino Act and provides for other updates to the existing rule. The final rule is effective 30 days after publication in the Federal Register.

Interest rate ceiling remains 18 percent

The NCUA Board approved final rule Section 701.21 (c)(7)(ii)(C) extending the 18 percent interest rate ceiling on loans and line of credit advances through September 8, 2006, to avoid restricting certain types of credit and adversely affecting the financial condition of a number of credit unions. The

interest rate had been scheduled to revert to 15 percent in March 2005.

Board actions December 16, 2004

NCUSIF retains 1.3 percent normal operating level

To maintain the stability of the National Credit Union Share Insurance Fund (NCUSIF) and ensure the long-term viability of credit unions, the NCUA Board voted to retain in 2005 the Fund's 1.3 percent normal operating level originally set by the Board in 2000.

The 1998 Credit Union Membership Access Act mandates the NCUA Board set the "normal" NCUSIF equity operating level between 1.2 and 1.5 percent. The normal operating level is the ratio of fund equity less unreserved contingent liabilities divided by total insured shares.

In October 1999, the NCUA Board decided the normal operating level would be established annually and from 2000 through 2005 the Board has approved a 1.3 percent operating level. The actual Fund equity ratio was expected to be 1.26 percent at year-end 2004. By March 2005, it is anticipated the equity ratio will increase to 1.28 percent, with credit unions' one percent deposit adjustment and 6 percent share growth projected for 2004.

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NCUA recognized for CFC contributions

NCUA's Alexandria staff is being honored with the President's Award and Summit Award for their generosity to the National Capital Area Combined Federal Campaign (CFC). The President's Award recognizes per capita giving of \$275 or more, and the Summit Award recognizes a donation increase of 3 percent or more. With a 71.4 percent participation rate, NCUA's Alexandria staff is donating over \$70,000, a 5.3 percent increase over previous donations.

Board remarks on 708a and 708b regulation changes

Chairman JoAnn Johnson - *"This rule (Part 708b) is good for members, and because it is good for members it is good for their credit unions. Members should have access to this information prior to voting on conversion, not just after the fact. Furthermore, we want any additional information the credit union provides its members, beyond our required disclosures, to be factually correct and not misleading in any way."*

"Since enactment of the Credit Union Membership Access Act, NCUA has been concerned that many credit union members do not fully understand the effect conversion to a mutual savings bank (Part 708a) may have on their ownership interests in the credit union and voting power in the mutual savings bank. A charter conversion is a complex and sophisticated transaction with long-term consequences that may not always be readily apparent. NCUA believes it is of paramount importance credit union members be fully informed about conversion so they may cast educated, meaningful votes. NCUA recognizes a credit union's right to convert its charter, so long as members have access to sufficient information to make an informed choice."

Board Member Debbie Matz - *"These actions are among the most important consumer protection regulations ever promulgated by this agency. In strengthening NCUA's rules governing conversions to private insurance and mutual savings banks, we are guaranteeing that members will receive accurate and complete information upon which to base their own votes."*

"However," Matz emphasized, "these rules are not intended to prevent conversions to private insurance or mutual savings banks; nor are they intended to infringe on the authority of other regulators. Most important, these rules are not intended to restrict members' right to vote. Members have every right to vote to convert their credit unions to private insurance or mutual savings banks, when their votes are based on information that is accurate and complete."

Access the final rules at www.ncua.gov/RegulationsOpinionsLaws/RecentFinalRegs/final_regs.html.



My Government Listens

Who and What: Board Member Debbie Matz will address the Indiana Credit Union League's Legislative/Regulatory Affairs Forum.

When: Tuesday, February 1, 2005

Where: Hyatt Regency Hotel, Indianapolis, Ind.

Why: Board Member Matz will focus on key regulatory issues and risks facing the credit union system.

Contact: Patty Jenkins at 703-518-6318 or pjenkins@ncua.gov.

Who and What: Chairman JoAnn Johnson will address the North Dakota Credit Union League.

When: Thursday, February 3, 2005

Where: Ramkota Hotel, Bismarck, N.D.

Why: Chairman Johnson will provide an update on the issues facing credit unions and the National Credit Union Administration's agenda.

Contact: Linda Queen at 703-518-6309 or lqueen@ncua.gov.

Who and What: Board Member Debbie Matz will co-host a free Partnering and Leadership Success (PALS) workshop on "How to Serve Everyone in Your Field of Membership."

When: February 8, 2005

Where: The Caribe Royale Resort/Convention Center, Orlando, Fla.

Why: This PALS workshop is intended to help credit unions reach new members outside the workplace, target all demographic groups, expand into new markets and build partnerships.

Contact: Patty Jenkins at 703-518-6318 or pjenkins@ncua.gov.

Who and What: Board Member Debbie Matz will address Central Florida Healthcare Federal Credit Union's 50th Annual Meeting.

When: Tuesday, February 8, 2005

Where: MD Anderson Cancer Center, 1414 Kuhl Avenue, Orlando, Fla.

Why: Board Member Matz will congratulate credit union officials for 50 years of member service and for becoming the first credit union to convert to a TIP charter.

Contact: Patty Jenkins at 703-518-6318 or pjenkins@ncua.gov.

Who and What: Chairman JoAnn Johnson will address the 2005 Legislative Issues Conference/Access Across America Economic Empowerment Summit.

When: Wednesday, February 9, 2005

Where: Embassy Suites, Des Moines, Iowa.

Why: Chairman Johnson will share her insight into credit unions and the future of NCUA.

Contact: Linda Queen at 703-518-6309 or lqueen@ncua.gov.

Who and What: Chairman JoAnn Johnson will address the Wescorp Summit.

When: Wednesday, February 23, 2005

Where: Sheraton Fairplex, Pomona, Calif.

Why: Chairman Johnson will discuss regulatory issues.

Contact: Linda Queen at 703-518-6309 or lqueen@ncua.gov.

Who and What: Chairman JoAnn Johnson will address the CUNA Governmental Affairs Conference.

When: Monday, February 28, 2005

Where: Washington Hilton Hotel, Washington, DC

Why: Chairman Johnson will discuss issues facing the credit union community in 2005.

Contact: Linda Queen at 703-518-6309 or lqueen@ncua.gov.

Who and What: Board Member Debbie Matz will address CUNA's 2005 Governmental Affairs Conference.

When: March 1, 2005

Where: Washington Hilton Hotel, Washington, DC

Why: Board Member Matz will speak to credit union officials visiting Capitol Hill about top issues in the credit union community.

Contact: Patty Jenkins at 703-518-6318



Access Across America Summit set in Iowa

Chairman JoAnn Johnson is spearheading an Access Across America Economic Empowerment Summit in Des Moines February 9 focusing on federal resources available to credit unions.

Co-sponsored by the Iowa Credit Union League and the Iowa Credit Union Foundation, the free, one-day event brings a host of presenters to credit unions from Iowa, Illinois, Minnesota, Missouri, Nebraska, South Dakota and Wisconsin.

"NCUA is pleased to co-sponsor the first summit of 2005 bringing together public and private entities to discuss economic outreach, particularly outreach to rural communities," Chairman Johnson said. "NCUA looks forward to meeting credit union officials and volunteers in the Midwest who are making a difference in the lives of their members and helping them achieve the American Dream of financial security."

Designed for credit union officials and board volunteers, this summit will enhance the ability of credit unions to expand financial services to their members by partnering with other federal agencies and non-profit organizations.

Key summit topics include:

- Financial education;
- Member business lending;
- Health savings accounts;
- Homeownership; and
- Serving underserved areas.

Participating agencies include the Departments of Agriculture, Health and Human Services, Housing and Urban Development, and Treasury. Also, the Federal Deposit Insurance Corporation, Export-Import Bank of the United States, Small Business Administration, and the Neighborhood Reinvestment Corporation are expected to participate.

Find more information on NCUA's website, www.ncua.gov.

Enforcement Authorities for Credit Unions

Listed below are the various laws and regulations that apply to credit unions and the related federal enforcement authorities.

| & Regulations | Federal CUs | Federally insured state-chartered CUs | Non-federally insured CUs | Laws |
|--|-------------|--|------------------------------|---------|
| Part I—Credit | | | | |
| B—Equal Credit Opportunity | NCUA | FTC | | FTC |
| E—Electronic Fund Transfers | NCUA | FTC | | FTC |
| Fair Credit Practices Rule | NCUA | FTC | | FTC |
| M—Consumer Leasing | NCUA | FTC | | FTC |
| RESPA—Real Estate Settlement Procedures Act | HUD | HUD | | HUD |
| Z—Truth in Lending | NCUA | FTC | | FTC |
| Part II—Housing | | | | |
| C—Home Mortgage Disclosure | NCUA | NCUA | | NCUA |
| Flood Disaster Protection Act | NCUA | NCUA | | FHA/VA |
| FHA—Fair Housing Act | HUD | HUD | | HUD |
| Part III—Privacy | | | | |
| Bank Secrecy Act | NCUA | NCUA ¹ | | TREAS |
| Consumer Privacy | NCUA | NCUA | | FTC |
| Fair Credit Reporting Act | NCUA | FTC | | FTC |
| Right to Financial Privacy Act | Private | Private | | Private |
| Part IV—Credit Union Operations | | | | |
| CC—Expedited Funds Availability Act | NCUA | NCUA | | FRB |
| D—Reserve Requirements | FRB | FRB | | FRB |
| Fair Debt Collection Practices Act | NCUA | FTC | | FTC |
| Management Officials Interlocks Act | NCUA | NCUA | | DOJ |
| Service Members Civil Relief Act | Private | Private | | Private |
| Truth in Savings Act | NCUA | NCUA | | NCUA |

Legend:

| | |
|---------|--|
| DOJ | Department of Justice |
| FHA/VA | Federal Housing Administration/Veterans Administration |
| FRB | Federal Reserve Board |
| FTC | Federal Trade Commission |
| HUD | Department of Housing and Urban Development |
| Private | Cause of Action |
| TREAS | Treasury Department |

NOTE: Although NCUA is not the primary enforcer under some of these regulations, Title II of the FCU Act authorizes NCUA to take cease and desist actions for violations of any law.

¹ For FISCUs examined by NCUA

Board actions December 16, 2004

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NCUSIF Reserves

The NCUSIF began 2004 with approximately \$79 million in reserves. With \$12.3 million added during the year, the reserve balance was \$85.9 million at November 30, 2004.

The methodology used in the reserve assessment is reviewed annually. Based on a Government Accountability Office recommendation, a more comprehensive method of reserve analysis was completed during the year. Analysis results indicate the Fund is currently "over reserved" by approximately \$12 million. An adjustment to the reserve balance was made in December 2004.

Federally insured credit unions are experiencing an extended period of minimal losses, and entering 2005 credit unions' well-capitalized position continues to ensure a strong, healthy insurance fund.

Missouri MBL rule amendment approved

The NCUA Board approved a revised Missouri member business loan (MBL) rule that reflects recent changes to Part 723, NCUA's lending regulation. The proposed changes vary somewhat from the NCUA

rule regarding definition of the aggregate MBL limit and the waiver process. However, the Missouri rule is more conservative in some areas and now includes a previously lacking waiver process. The revised Missouri rule minimizes risk and accomplishes the overall objectives of the NCUA regulation.

Texas MBL rule amendment approved

The NCUA Board also approved proposed revisions to the Texas MBL rule. While Texas' MBL rule varies somewhat from NCUA's rule, the Texas' rule accomplishes the overall intent of Part 723 and, in some cases, is more restrictive than NCUA's MBL regulation. The differences between NCUA's rule and the Texas MBL rule primarily center on loan policy requirements and the waiver process. The Texas MBL rule's addition of a waiver process is a positive addition to the rule. Without being identical, the revised Texas MBL rule minimizes risk and accomplishes the overall objective of NCUA's regulation.

Board votes are unanimous unless indicated.



PALS workshop helps CUs reach new markets

NCUA Board Member Debbie Matz is organizing a free Partnering and Leadership Successes (PALS) workshop April 28 in St. Louis to help credit unions gain new members and new business by reaching new markets.

"Our Spring PALS workshop will help credit unions of all sizes capitalize on opportunities to build their loan portfolios and strengthen their bottom lines," Matz explained. "Panels of credit union leaders will share different approaches that have proven successful in serving markets where there is little competition from other insured financial institutions."

Officials from large and small credit unions with federal and state charters are invited to attend. Networking opportunities will be available during breakfast and lunch.

The PALS workshop in St. Louis will be co-hosted by the Missouri Credit Union League, Credit Union National Association, Illinois Credit Union System, Iowa Credit Union League, Kansas Credit Union Association, and National Federation of Community Development Credit Unions.

Register for this free PALS workshop online at www.ncua.gov by clicking the registration link for April 28, St. Louis, Missouri.



December 9, 2004, Lancaster, S.C – Board Member Debbie Matz and Founders Federal Credit Union CEO Bruce Brumfield (center) cut the ribbon to officially open the first bilingual branch of a federally insured credit union in Lancaster.

Region V rotates ARDs

NCUA's Region V Tempe office began the year by rotating its associate regional directors. Effective January 3, 2005, David M. Hibshman became associate regional director of Operations (ARDO) and John Hogue became associate regional director of Programs (ARDP).

As ARDO, Hibshman is now responsible for supervising the Region V divisions of Supervision, Insurance, Administration and Special Actions.

As ARDP, Hogue is now responsible for the supervision and examination program for federal credit unions in Alaska, Arizona, California, Colorado, Guam, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming.



About Investments

Beware of Sallie Mae look-alikes

Section 107(E) of the Federal Credit Union Act permits federal credit unions to invest in obligations or other instruments or securities of the Student Loan Marketing Association (Sallie Mae). However, as of December 29, 2004, the holding company of Sallie Mae, SLM Corporation, terminated all ties to the federal government. Sallie Mae will no longer issue permissible investments for federal credit unions. Federal credit unions need not divest of existing investments and can purchase Sallie Mae securities issued prior to that date.

Caution is recommended. There are a number of companies that have initials and names similar to the Student Loan Marketing Association. For example, federal credit unions are not permitted to purchase direct obligations of SLM Corporation, SLM Funding or various student loan asset-backed securities issued by SLM trusts. In these cases, the prospectus clearly indicates they are not obligations of Sallie Mae.

Therefore, a federal credit union that chooses to purchase Sallie Mae securities should be certain it is purchasing a permissible investment and not a similar named instrument that is not permissible.

Exam committee objectives updated

NCUA's National Examination Committee (NEC), comprised of NCUA regional and headquarters representatives and state supervisory representatives, generally meets quarterly to ensure the credit union examination program remains prominent, consistent and proactive.

Recently, the NEC updated its objectives to:

- Ensure the Examiner's Guide, examiner training, and examination and supervision programs are consistent in content and approach;
- Author the Examiner's Guide;
- Evaluate technology, examination and auditing changes proactively to determine how they may impact examination and supervision of federally insured credit unions;
- Bring regional examination and supervision issues to the national level;
- Evaluate post mortems of failed credit unions to determine if changes in examination and supervision programs are indicated; and
- Serve as liaison between the Office of Examination and Insurance (E&I) and NCUA's training council.

Commission distributes 38,000 financial toolkits

As a member of the Financial Literacy and Education Commission, Chairman JoAnn Johnson reported at the January NCUA Board meeting



that 38,000 free "My Money" financial education toolkits have been distributed via the website www.mymoney.gov and hotline 1-888-mymoney (1-888-696-6639). These national financial education mediums, unveiled October 2004 at NCUA, are products of the Commission's 20 member agencies. The free "My Money" toolkit is a package of helpful publications on saving, investing, protecting and getting the most for your money.

Chairman Johnson noted that the next goal of the Commission is to develop a national strategy to enhance financial education. Organized by statute under the direction of U.S. Treasury Secretary John Snow, the Commission is charged with increasing the financial education of Americans.